Tata Communications

27 June 2018 05:30

62-79 minutes

MUMBAI MAHARASHTRA Aug 11, 2018 (Thomson StreetEvents) -- Edited Transcript of Tata Communications Ltd earnings conference call or presentation Friday, August 10, 2018 at 9:00:00am GM T
* Pratibha K. Advani
Good day, ladies and gentlemen, and welcome to the Tata Communications Limited Q1 FY '19 Earnings Conference Call. (Operator Instructions) Please note that this conference is being recorded. I now hand the conference over to Mr. Vipul Garg, Head of Investor Relations at Tata Communications. Thank you, and over to you, sir.
Thank you, [Mari]. Good afternoon, everyone, and welcome to Tata Communications Earning Conference Call. We have been joined today by Vinod Kumar, MD and Group CEO; and Pratibha Advani, Chief Financial Officer. Results for the quarter ended June 30, 2018 were announced yesterday, and the quarterly fact sheet is avai lable on our website. I trust you would have the opportunity to look at the key highlights. We shall commence today's call with comments from Vinod, who will share his insights on the business dynamic and (inaudible) and our strategic intent. He will be followed by Pratibha, who will lead the discussion on financials. At the end of managements' remarks, you will have an opportunity to get your questions [an swered].
Before we get started, I would like to remind everyone that some of the statements made or discussed on the conference call t oday may be forward-looking in nature and must be viewed in conjunction with the risks and uncertainties we face. A detailed statement and explanation of these risks are [reviewed] in our annual filings , which you can locate at our website, www.tatacommunications.com. The company does not undertake to update these forward-looking statements publicly.
With that, I would like to turn the call to Vinod to share [reviews]. Over to you, Vinod.
Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [3]
Thanks, Vipul. Good afternoon, everyone, and a very warm welcome to all of you. I would start by giving you a perspective on our strategy within the context of our industry, then discuss our performance in Q1, and then close off with a few updates.
The telecommunication ecosystems remain as fascinating as ever. Change is a constant in our industry, and FY '19 will be no d ifferent. There are emerging trends which will shape the telecom [biz] course in the future. We will be witnessing alliances between telecoms and content companies, as we've started seeing in the U.S.; smar tphone users will increasingly adopt augmented reality while B2B augmented reality apps will considerably change the [workflows] processes.
It is expected that the pioneering players in the telecommunication industry will enable 5G between 2018 and 2020. And it's n ot just consumers who are hungry for data. Several industries, including automotive, retail and utilities, home security, architecture, and even agriculture are embracing IoT, which will necessitate networks to support a broad range of applications. These trends are in different stages of development and realization in different geographies. And these will result in some impact on the degree of global scale that's achieved in the near term, but the trend is very evident.
Companies that embrace the change and evolve around it will continue to thrive. Tata Communications has dynamically kept pace with the changing technology landscape and transformed itself from a pure connectivity provider to a next-generation digital infrastructure provider. We continue to gain prominence in the large enterprise ecosystem, with a clear fo cus on empowering customers with solutions that go well beyond product silos, and we're continuing to innovate and scale both our products and our platforms.
Coming to this quarterly performance, as you are all well aware, the industry is going through a tough phase, and we've also been affected to a certain extent by operator consolidation in India. Despite these headwinds, we've been able to maintain our numbers this quarter. Consolidated revenue was down largely due to the decli ne in our Voice business. Despite the decline in the revenue, the operating profit was flat due to cost optimization and cost control. We continue to face challenges in the Voice business, but we were able to maintain our margins through cost efficiencies, which we're driving very closely.
Q1 Data revenue was flat on a quarter-to-quarter basis but grew 3.9% on a year-on-year basis despite challenging industry landscape. The Data EBITDA grew by 0.4% quarter -on-quarter and 3.1% on a year-to-year basis due to again, as I said, a strong focus on our operating costs. The change in treatment of one -time service revenue in accordance with IndAS 115 has impacted our Data Services portfolio, including the Growth Services. Traditional Services EBITDA margin was strong at 30.8% while we were able to reduce the EBITDA loss in Growth Services significantly.
For Growth Services, the market demand and the relevance of our offerings remains very strong. The funnel for our Growth Serv ices is strong. It is growing at faster rates than it did in the past. And we are confident to create similar growth rates as we did in the last financial year. We will certainly [slink] our EBITDA losses in Growth Services. For Q2, we expect that this will be roughly half of the Q1 loss, and we will be in positive territory after that. As I said, IndAS 115 has also impacted the profitability a little in our Growth Services, but we are making all efforts to stick to the time lines that we [have] communicated earlier.
TCTS revenues were impacted due to operator consolidation in India, and EBITDA was lower due to normalization of certain one -off gains in Q4. Overall, we're very confident of the year-on-year growth for TCTS on the basis of the orders which we already have under implementation.
Regarding working capital and the impact on debt, I want to assure you that this is a situation that will persist for a coupl e of quarters while the revenue mix stabilizes. It is not reflective, however, of any weakness in our underlying strategy or in the operational processes. And finally, and on ROC itself, we stand firmly by the g uidance we provided for the 3-year horizon, and we're confident of achieving it.
Now to quickly provide you some updates on key developments in the past few months. As you're all aware, we got approval from NCLT on the surplus land de-merger, and we're now awaiting the [NCA] approval. Post-NCA approval, the scheme will be effective. We hope to conclude the land de -merger, along with the listing of Hemisphere Properties, within this calendar year.
Moving to the business, the emphasis on partnership have been quite significant. And through our partnership program to join forces with a number of marquee names, with an aim to drive innovation, customer centricity, and paving the way for truly borderless and seamless collaboration. Some examples would be are the follo wing: "Tata Commutations is one of the launch partners for the new Microsoft team's direct routing capability. Calling in Microsoft teams can be delivered over the Tata Communications' Tier 1 global net work and will help enterprises worldwide offer their employees a reliable, high-quality user experience."
We're working with Singapore Telco tech platform company called MyRepublic as it looks to expand its offerings from home broa dband to mobile services. The cloud-based Tata Communications MOVE platform helps MyRepublic become a mobile virtual network operator, or MVNO, without having to make any capital investment in its own mobile infrastructure or service management.
NEP and Tata Communications together completed the remote production of VIVO Indian Premier League 2018 for Star Sports. "VIV O IPL is one of the most sought-after sporting spectacles in the world, which means there is simply no room for error. In a high-pressure environment like this, remote product enabled by an ultra-low-latency video network that we provide is having a truly transnational impact."
Tata Communications and Primestream have joined forces to launch an enterprise-grade media asset management solution in the cloud. This new platform enables broadcasters, content owners, and enterprises to capture, produce, manage, and deliver media content on a global scale. "A joint offering with Primestream unif ies and simplifies media asset management from capture to distribution and helps to meet all the insatiable appetite for new video content and more powerful viewing experiences."
These are just a few examples of where we're working with partners to create services and expand the impact we're having glob ally.
The Tata Communications platform is now embedded in some of the biggest enterprise ecosystems, and this is driving partner -led growth for us. This has now gone beyond our traditional connectivity services to also include mobility, IoT, and some hosting services. Examples of these are W -Locate plans to expand its operations to other Asian countries enabled by our MOVE platform and by IZO private cloud. Tata Communications is working with BlaBla connect to offer seamless connectivity services to its OTT subscribers. We' re working with Hong Kong-based startup Doki Technologies to support the company's expansion in the U.S., Canada, Europe, and Southeast Asia.
Moving on to what matters the most, human capital has always been a key pillar for the Tata Communications foundation, and I' m very happy to state that we've been awarded as one of the Best Companies to Work For in Hong Kong in 2018 as a great place to work. The company scored 93% in the Overall Trust Index, demonstrating s trength as an equal opportunities employer with inclusive workplace policies, a positive work culture, robust new joinee and onboarding processes, and a strong learning and development strategy for its e mployees.
We continue to display clear thought leadership and are at the forefront of several key emerging trends in the enterprise eco system. Strengthening our portfolio and infrastructure to meet the demands (inaudible) future. I'm happy to state that Frost & Sullivan recognized Tata Communication for its remarkable contribution [w ith] the Enterprise Services at its 2018 India ICT Awards, where we [bagged] six awards in the Enterprise Telecom Services and Infrastructure categories.
Last quarter, I presented the company's vision for the next three years. We have been laying the foundation to achieve this v ision, and we are satisfied with the progress. And we're confident that we're moving in the right direction. Looking ahead, we expect a pickup in the pace of growth in our Data business as the industry e nvironment improves, the customer portfolio beefs up, and the newer services begin to contribute meaningfully. Our eyes are set on delivering consistency of earnings, stronger EBITDA, and better return ratios.
The transformation that we are going through internally is beginning to give us enhanced agility and efficiency, and this wil l accelerate the deployment of solutions and services that can be scaled up. We have successfully managed and incentivized both our teams and vendors in ways that put customer outcomes at the center of eve rything we do. We've moved away from building (inaudible) and have a sharp focus on leveraging technology ecosystems and on making the Internet fit for business. Our focus as we move forward wil l be on being more digital, bundling our services, driving up product penetration ratios, [re-skilling] our employees, and the right-sizing of our operations.
With that, I'd like to invite Pratibha to discuss the financial highlights of the last quarter. Thank you.

Pratibha K. Advani, Tata Communications Limited - CFO [4]

Thank you, Vinod. Good (inaudible) [to report to you], and thank you for taking out the time to be on our earnings call today . I will start with some color on the consolidated numbers. Consolidated revenues came in at INR 3,912 crore, down 2.4% Q-on-Q and 9.2% Y-on-Y, primarily due to decline in Voice business and, as Vinod mentioned earlier, due to operator consolidation in India. Despit e declining revenues, EBITDA margins expanded. The consolidated EBITDA for the quarter came in at INR 575 crores, which was flat sequentially and [show the] decline of 0.6% on a Y-on-Y basis. Reported margins expanded by 30 basis points sequentially and 120 basis points year-on-year. We have faced headwinds this quarter due to the challenging industry landscape. But despite the headwinds, we have main tained our margins due to some of the productivity initiatives that we have been working on for the last few quarters.
Other income was lower this quarter as quarter 4 had one-time interest income on the income tax refund, which was INR 189 crores. Finance cost was high on Y -on-Y basis due to increase in net debt and average LIBOR movement from 1.21% in Q1 last year to 2.34% in the current quarter. On a quarter -on-quarter basis, finance cost was flat despite an increase in LIBOR. Tax loss narrowed to INR 58.5 crores as compared to a loss of INR 121 crores in Q4 last year.
Moving to [segmental] performance, Data business was steady despite industry headwinds. Quarterly Data revenue grew by 3.9% y ear-on-year only to decline 5.3% Q-on-Q. The growth was impacted due to, as I mentioned earlier, operator consolidation and IndAS 115 impact, which Vinod had touched upon earlier. Data EBITDA grew b y 3.1% year-on-year and 0.4% Q-on-Q [from] the [back] of cost efficiencies. Data EBITDA margin expanded by 10 basis point on a quarter-on-quarter basis. We did get some FX benefit of revenue, which was INR 35 crores, but it was marginal on EBITDA just at INR 70 l akhs on quarter-on-quarter basis.
Traditional Services revenue for the quarter came in at $291 million and [which was] a decline of 1.8% quarter -on-quarter and 4.6% year-on-year. Revenue was impacted again by operator consolidation, but witnessed a strong EBITDA margin [in] 30.8% for the quarter, and expanded by 210 basis points on a year -on-year basis and 40 basis points on a quarter-on-quarter basis on the back of sustained productivity

initiatives.
Growth Services revenue at $89 million witnessed a Y-on-Y growth of 20.8%. Within this portfolio, IZO Services grew by 188%, and Media Services grew by 44% Y -on-Y. Revenue declined by 8.5% quarter-on-quarter. This was impacted by change in treatment of one -time service revenue in accordance with IndAS 115, which also impacted the Data Services portfolio, including Growth Services . Going forward, one-time service revenue will be recognized over the life of the contract, which in the case of Growth Services ranges from 3 to 5 years.
EBITDA loss for Growth Services declined to $9.4 million as compared to $13.7 million lost in the last quarter. We will conti nue to see the strength of narrowing losses in the coming quarter.
Through our Innovation Services portfolio, we are pursuing many exciting opportunities, such as MOVE, IoT, and NetFoundry. We are confident that a larger and significant contribution to the overall revenue will be realized from Innovation Services in the future. But in the interim, we will continue to invest in this busin ess. Our operating metrics for Innovation Services are moving in the right direction, and we have started to see revenue trickle in.
Moving on to the performance of subsidiaries, Transformation Services revenues came in at INR 275 crores, witnessing a growth of 1.8% year-on-year but a decline of 7% on a quarter-on-quarter basis. The decline in revenue is on account of impact of Tata (inaudible) business operations. EBITDA for the quarter was at INR 30.8 cr ores, witnessing a decline of 17.3% year-on-year and 36.7% on quarter-on-quarter basis. The decline in EBITDA was due to higher provision for doubtful debt and normalization of one -time gain in Q4 because of corrective maintenance, which is a cyclical trend. We have seen some strong wins this quarter, both from India and outside. We will see this business bounce back in Q2. (inaudible) business was affecte d due to consolidations of our ATM portfolio as we closed some of the less profitable ATMs. This is what has largely impacted our revenue in this quarter. Over the year, we have shut down over 2,600 A TMs. Marginal EBITDA loss this quarter was on the back of provision for doubtful debt of INR 4.9 crores. We are seeing an improvement in cash supply, and the average daily transactions in our [Indi a] cash portfolio have increased to 96 this quarter as compared to 89 in Q4.
Voice business continues to decline, and we saw pressure on both volumes and realizations this quarter. Revenue for Voice bus iness declined 7.8% Q-on-Q, and a steep decline of 33% Y-on-Y, with revenues coming in at INR 1,027 crores. EBITDA margin expanded by 40 basis points due to some of the cost optimization initiatives. Ca pEx for this quarter was at $72.3 million. An increase in CapEx was due to spend on expansion of India Access Network and also investment in (inaudible). We maintain our annual CapEx guidance of $250 millio n to $275 million.
Net debt at the end of this quarter came in at $1.27 billion, an increase of $117 million over last quarter. The increase in debt is on account of higher working capital movement due to ongoing change in our portfolio mix in favor of data services, which now contribute 74% to our revenues as compared to 64% year -on-year, and also because of higher CapEx spend this quarter. This change in mix is putting pressure on our working capital. Additionally, we are seeing a delay in [Voice settlement] for some countries like Libya and Cameroon, putting short-term pressure on our working capital. You would recall that Voice is a negative working capital business. However, for countries like Libya, all (inaudible) transactions are being routed through the Central Bank. We have, however, got confirmation that these will be released in (inaudible).
To conclude, our EBITDA margin has expanded this quarter on the back of sustained productivity initiatives despite battling i ndustrial (inaudible). The change in portfolio mix in favor of Data Services and the continued focus in productivity in digital transformation initiatives will continue to drive an improvement in our margin pro file.
This brings to an end of the management commentary, and I would like to request the moderator to open the floor into question s and answers. Thank you.
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Questions and Answers

Operator [1]

(Operator Instructions) First question's from the line of Amruta Pabalkar from Morgan Stanley.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [2]

Firstly, as you mentioned, that the revenue for the Data segment overall, as well as Growth Services, got impacted due to the accounting -- change in the account revenue recognition. Can you give us some sense that like-to-like, had this change not happened, what could be the QOQ revenue growth for Data as well as Growth Services?

Pratibha K. Advani, Tata Communications Limited - CFO [3]

The trend that we get, if you look at the last couple of quarters, was in the range of $10 million to $13 million. And this h as got spread over almost 36- to 48-month period.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [4]

So is it fair to say that, had this accounting change not happened, we would have been in the similar growth trajectory of 6% to 8% Q-on-Q mainly for the Growth basket?

Pratibha K. Advani, Tata Communications Limited - CFO [5]

Yes, that is right.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [6]

Secondly, with this change, do we still maintain the 35% annual growth rate for the Growth basket in fiscal '19, or you see s ome down side to it?

Pratibha K. Advani, Tata Communications Limited - CFO [7]

Vinod did mention earlier that we are expecting the same growth rate, but obviously we do some adjustment for this IndAS impa ct. But hopefully we should see the same growth momentum, going forward, on the (inaudible).

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [8]

The [underlying] business leaving the accounting impact should be we'll maintain the same growth rate as before.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [9]

And then, coming to the Innovation basket, your KPIs are impressive. The growth in MOVE and IoT QOQ looks interesting. Do you have kind of a broad picture (inaudible) that we can think of from, say, next 12-month perspective, how do this translate into revenue? You have $150 million mark for fiscal '21. But in the interim, how can we think of revenue growth and the overall investment over next 12 months and 24 months?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [10]

I don't want to throw a number out on that, but I will come back to you maybe in the next meeting with -- but we see that beginning to pick up a steady pace as the trials we are doing, and you've seen the operating metrics. They will start translating into increasing revenue in this quarter and going on every quarter. At this po int, I'm not going to put a number out yet, but it's a (inaudible). We'll give you some view on that next quarter.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [11]

Just for our kind of -- some sense, is it fair to say that the EBITDA losses that this basket is generating, probably the sequential run rate, this w ould be a fair number to look at over next two quarters or three quarters, I mean, on the (inaudible) of a loss in EBITDA? Just this basket, or you think there could be an upside to it in th e near term?

Pratibha K. Advani, Tata Communications Limited - CFO [12]

Are you talking about the Innovation Services?

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [13]

Yes, just the Innovation basket.

Pratibha K. Advani, Tata Communications Limited - CFO [14]

No. I see we are still investing in this portfolio, Amruta. So I do not [know] where have you picked up the $1 million EBITDA loss number, because if you look at Innovation, then it was [$3] million. The net revenue number is $1 million. That was because we are doing [COCs] for the customer. And so there is a higher direct cost tha n the revenue that we are getting. And that is why Vinod mentioned that the success of incremental revenue comes at the end of these COCs. And that's why we don't want to [state] our revenue at this po int in time. But we would be, on a quarter-on-quarter basis, be investing $12 million to $13 million every quarter in this basket.

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [15]

And that's [all] reference of what we said before this to clarify, because we believe that these services are [turning in the business more], and so we do need to make sure that we both create the right service and create the right channels to market.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [16]

If I may just chip in one last question, you mentioned that the TCTSL segment was impacted due to operator consolidation. Do you think that this impact is behind us, or [TTSL] impact could potentially come through over next couple of months based on whatever clarity you have as of now?

Pratibha K. Advani, Tata Communications Limited - CFO [17]

As of now, Amruta, we think we would see the impact until Q3, early Q4.

Amruta Pabalkar, Morgan Stanley, Research Division - Associate [18]

And we had a number between $70 million to $80 million. Has that number come down? Or we are still pretty much there in terms of ?

Pratibha K. Advani, Tata Communications Limited - CFO [19]

It has. It has come down. It has kind of almost halved. But we would see the trickle-down effect happening over the next few quarters.

Operator [20]

The next question is from the line of Girish Raj from Quest Investment.

Girish Raj Sankunny, [21]

The first question is on the Traditional Services. The OpEx run rate has come down to $143 million in first quarter. And the reason is productivity. Is this a sustainable [number], or is there anything else that we are not aware?

Pratibha K. Advani, Tata Communications Limited - CFO [22]

This should be a sustainable trend. As Vinod and I have been talking to all of you, we have put in productivity initiatives t hat are now starting to show. So unless there is a one-off [cable cart] or an O&M cost, this really should be the trend, going forward.

Girish Raj Sankunny, [23]

On the Growth front, with the new revenue run rate because of the IndAS 115 impact, are we giving out any EBITDA (inaudible) target as in when would we achieve this?

Pratibha K. Advani, Tata Communications Limited - CFO [24]

Actually Vinod mentioned in his commentary we should start to see this loss coming down to half next quarter, and then our (i naudible) should be a positive trajectory.

Girish Raj Sankunny, [25]

On the OCI, that is at INR 289 lakh, and has remained INR 30 crores to INR 40 crores (inaudible). What is the balance?

Pratibha K. Advani, Tata Communications Limited - CFO [26]

Can I just come back to you on that answer?

Girish Raj Sankunny, [27]

Okay, thank you.

Operator [28]

(Operator Instructions) The next question's from the line of Riddhesh Gandhi from Discovery Capital.

Riddhesh Gandhi, [29]

It's a question on your growth in your Innovative. As per our estimates, you would have invested between OpEx, actually CapEx , et cetera, we're [working] at INR 2,000 crores, INR 2,500 crores in these two businesses. And this quarter, it's (inaudible) our losses at the EBITDA level of about INR 150 crores. So what's giving us th e confidence, sitting where you are, that this is a prudent allocation of capital, and that we will earn the required return ratios ultimately on this investment that we are making in these two areas?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [30]

I said three things. One is, is [that can only deduct] Traditional. We've become only marginally relevant to our customers in the future. So to stay with what customers are [requiring] not buying, we have to make the shift. So it's an existential point.

And the second point is the addressable market size and the verification we have through both customer conversations and as w ell as with third-party review of our product portfolio strategy and so on the (inaudible) and [make] (inaudible) we are addressing in the market. So we believe that there's considerable head room in the markets we've chosen for the Growth Services. So that's the second point.

And the third is the funnel that we have, the year-on-year growth in the funnel will be [a three]. And on the closed order book, which is under implementation. So those are the th ree reasons that lead us to firmly believe that is the right place to allocate. It's not so much CapEx as much as OpEx, because we are working hard to cr eate a CapEx asset-[light] portfolio around our [Growth] business. But we believe that, as these revenue picks up, we'll start seeing the EBITDA improve, and then the return on the capital also [sure].

Riddhesh Gandhi, [31]

So just take a follow-up on that, so, I mean, is this a actually [lead kind of] defensive investment to actually protect our existing business? Or is it actually more of a offensive in terms of something that we are excited about the opportunity, and therefore are investing because we expect to earn adequately return on the capital we' re kind of deploying here?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [32]

I think it is both. It's probably more (inaudible), if I had to choose one over the other to satisfy where you may be coming from, it's from -- I think it is offensive where it's expanding. But if you look at a service like SDWAN, for example, over time, customers are going to require hybrid solutions, and that's [when] we've emphasiz ed the (inaudible) benefit from (inaudible) and leveraging the assets that we've created by building an [overlay] solution on top, and eventually even becoming access-agnostic and letting customers bring their own network.

And hence, it is a migration from one service to the other that we need to also keep in mind in order to maintain the relevan ce. So it's largely offensive, and expect our addressable market, which we've shown you before on the market size doubling because of services like the compute and storage on the cloud, [USD] portfolio, our Security Services, and then SDWAN and the whole Internet-based VPN I would say straddles both the defensive and (inaudible).

Riddhesh Gandhi, [33]

The last question is that we heard extremely impressive actually plans for your business over the next few years. But (inaudi ble) given observing over the last -- maybe because 6 to 8 quarters, that's not really reflecting in your actual numbers or your financials. And so, effectively, how do we get comfort around the fact that your longer-term projections and aspirations actually will be achieved when the near-term numbers aren't being achieved? And we aren't really looking at this from a quarterly perspective. We're looking at it fr om a actually longer-term perspective, but still would like to see at least some degree of kind of confidence as we're seeing the contraction building. So any idea on when we can actually just see (ina udible) reflected in the actual (inaudible)?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [34]

Yes, it's a very fair question. And to be frank, the reason why we came out and shared a clear view of where we're going is t hat I think, if you look at the quarterly shifts, or just look at the quarterly numbers, it is very difficult to call some of the transitions we're making from one service to another, one type of service to another , at the quarterly time blocks. Hence, we made the decision to actually say, "This is where we're going, and we're confident we'll get there," and we put a stake in the ground.
So yes, we look at it on a quarterly basis. You should look at it on a quarterly basis. But it's over a longer period that yo u would see that (inaudible) shift in the business mix. And historically we've proven that, right? We made the shift from Voice to Data. We made the shift from more traditional connect private -line data to VPN-based data. So we believe we have the transporting ability and the execution ability to make the shift.
And I don't know, other than repeating myself again, how else to explain it. And that's why we also started sharing operating metrics, talking about the funnel. And we've even given you an indication of where we'll end up next quarter on Growth Services, to give you comfort. But what I'd say is, when we're making these shifts, the quarterly [lend] is a bit restrictive, which is why we've given you a clear view. And I think when you look back year-on-year view at the end of the year, you will see Growth Services, as I answered Amruta, we will maintain the same growth rate t hat we did last year. You will see it turning positive.
And, I mean, we'll have to build on that and pick up, and the incubation services will move from operating metrics and proof -of-concepts to revenue, and then to EBITDA faster. But what we really don't want to do is to bind ourselves too closely to achieving a quarterly number at any cost and sacrifice the future, because -- especially given the validation we have from customers and from independent industry analysts, it would be foolish to throw away these services that we've created by not adequately investing in taking them to t he customers that need them the most.

Pratibha K. Advani, Tata Communications Limited - CFO [35]

Riddhesh, if I can answer your question on other comprehensive income, we have a INR 302 crores on account of foreign currenc y translation [result] on account of revaluation of our assets and liabilities.

Operator [36]

The next question's from the line of Aliasgar Shakir from Motilal Oswal Securities.

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [37]

I have a few quick questions. One is you mentioned that the funnel is strong, and particularly in the Growth segment. So just wanted to generally understand typically what is the time we require from receiving an order to probably seeing revenue recognition? I understand that we saw some impact this quarter, particularly wi th the change in accounting. But for a couple of quarters, our overall funnel has been really strong. So just wanted to understand what kind of revenue growth outlook it could entail and the amount of time i t will take.

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [38]

I think on revenue growth outlook, I have already stated that a couple of times, that we'd maintain the growth rate that we d id last year. In terms of time, now, understanding the business itself, the close time for Growth Services is roughly the same I'd say as our VPN kind of services, so take around 90 to 120 days -- I'm sorry, 90 to 180 days to close an opportunity that's been [add in the pipe]. (inaudible) services can be a bit faster because, in Growth Services, we have many services that make it up. But typically, I'd say 90 to 180 days to close, but we factor that in when giving you the revenue growth projection.

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [39]

And a few quarters back, I think maybe about 6 to 8 quarters back, we were spending what we called a transformation cost to c lear the (inaudible) and improve our cost efficiency. So just wanted to understand what is the investment for that requirement in that context, or (inaudible) investment, and how much [are you plan ning]? Should we see some reduction in cost towards that?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [40]

So are you referring to our digital transformation?

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [41]

Yes.

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [42]

Okay. So I think we have the number for this year. We're not ending at the rate that we called out earlier, (inaudible) we'd say $20 million over each year for the 5-year period. But Pratibha, what's our latest view on that?

Pratibha K. Advani, Tata Communications Limited - CFO [43]

Vinod, we would be spending in the range of about $10 million to $15 million this year. And to answer your question on produc tivity, some of the benefits that you can see on productivity, we've already started to see these kick in.

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [44]

So should we -- I mean, I think we are already in the second or third year of that investment, correct me if I'm wrong. So just want to under stand will this cost continue, or we should see this reducing, going forward?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [45]

We will start seeing -- yes, I'll say that. I think the costs will continue this year and into the middle of next year. But you'll start seeing -- if you look at our non-[manpower] OpEx and manpower to that revenue that we are beginning to capitalize, you'll start seeing an improvement of those ratios next year. But the investment s will continue this year and into middle of next year.

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [46]

And I'm sorry if I missed, but are TDSL, are there any timelines you can share in terms of when the (inaudible) DSL -- yes, I'm just confirming, are [there any] liabilities of TTSL probably towards high - (inaudible) spectrum payment or everything else around the consumer business that was not taken by (inaudible) which may come on us? Or it may be probably (inaudible)?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [47]

We will not be taking on when the deal gets done anything related to the consumer business or spectrum and so on. We are inte rested only in the enterprise business and the fixed-line assets. So we will not be taking those obligations. But in terms of timing, we are going to be final steps of getting the vote to approve it. I'm ho ping that, in the next 3 to 4 weeks, we will be able to conclude that.

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [48]

And just last question on our debt and working capital. So you mentioned that, for a couple of more quarters, we may see the working capital impact because of the change in revenue mix. I just want to understand, what is the optimum debt level related to that? I know we had $1.3 billion [issued this quarter] because of the c hange in working capital requirements. And what is the level that we are looking at either in terms of absolute amount or in terms of the leverage ratio? Or should this come down once we see improvement in EBITDA?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [49]

You'll see it come down once it's -- with the improvement in EBITDA. But rather than pick a number, I would just say that, compared to Telecom industry norms, we are in very safe levels. We've never had any challenges. We'll also have a (inaudible) raising debt for -- or renewing debt, or serving our debt. But that's not what we take comfort in. We'd like it to reduce, and we will -- we're seeing a slight hump right now, but it's not because of any recklessness. It is just a change in mix that we have to manage through, and we will o vercome it.

Aliasgar Shakir, Elara Securities (India) Private Limited, Research Division - Analyst [50]

So 2 quarters later, once the revenue mix is stabilized, we should start seeing this [coming down]?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [51]

I'd say 2, 3 quarters, yes.

Operator [52]

The next question's from the line of Sanjesh Jain from ICICS Securities.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [53]

A couple of questions from my side, one on the competitive intensity in Enterprise segment in India.

Operator [54]

Sorry to interrupt you, Mr. Jain. May I request you to speak a little louder, sir?

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [55]

Yes, sure. First on the Enterprise segment, particularly from India perspective, have we seen any competitive intensity incre asing as of now?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [56]

Our answer is no. It's the same players [as just] (inaudible) in the market. Given the consolidation the players (inaudible) they're not ones that we typically would compete with in the large enterprise field. Maybe there's a little bit of pressure on pricing when it comes to our Wholesale services, but I don't think it's anything un usual that we've seen in the last two quarters.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [57]

(inaudible), because our Enterprise segment (inaudible) consolidation would have towards (inaudible). But our Enterprise segm ent is also seeing decline in the growth, so we were growing in teens. Now it has come down to 7.9% YOY basis. So I was wondering there was a currency tailwind also built into it. So what I would like to -- the decline in our Enterprise revenue, any particular thing which is happening?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [58]

No, nothing particular to that (inaudible). But on competition, there's nothing particular in (inaudible).

Pratibha K. Advani, Tata Communications Limited - CFO [59]

Yes. The impact is because of IndAS.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [60]

Okay, so that is more from the enterprise perspective.

Pratibha K. Advani, Tata Communications Limited - CFO [61]

That's right, because of the one-time Service revenue now gets amortized over the life of the contract.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [62]

Okay, to that extent, so your enterprise (inaudible), but your Service provider had (inaudible) service revenue?

Pratibha K. Advani, Tata Communications Limited - CFO [63]

That's right.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [64]

Second, on the VPN services, okay, our VPN services has also declined 1% YOY. Is our revenue cannibalizing over VPN? Is that happening?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [65]

No. That is not the [main] reason I would assign to it. We are seeing -- as I said, there's a hybrid trend which we're seeing, but there's no cannibalization [when we're] at this point.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [66]

These are complementary services, right?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [67]

They're complementary. Otherwise, we go (inaudible) before we do. But otherwise, we may go into a new customer and [rope all in] with IZO and cannibalize somebody else's traditional VPN solution. But we're not seeing that effect on our base yet.

Pratibha K. Advani, Tata Communications Limited - CFO [68]

And again, the VPN services get impacted by IndAS.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [69]

The last one. On the CapEx segment, because we have seen the consolidation in Telecom, and I can understand your (inaudible) acquisition. You said it's 3 to 4 weeks away. And it may take some time to even consummate that. Do you see risk to your CapEx guidance for -- we may need to roll out some more access network?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [70]

No. We're maintaining our CapEx guidance.

Sanjesh Jain, ICICI Securities Limited, Research Division - Research Analyst [71]

So we are maintaining, so we are comfortable in that range that we should be able to meet our [lower] network requirement, as well.

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [72]

We'll make sure we do.

Operator [73]

The next question's from the line of (inaudible) from BHA Securities.

Unidentified Analyst [74]

Hi, so just wanting to know about the timeline for the de-merger of Hemisphere Property somewhat (inaudible) from the EDM. Is that the NCLT approval for the de -merger was obtained on -- certified copy was obtained on August 6. If you could give us some sense on the timeline where we could get [NCI] approval, and finally we c ould see a record date for the de-merger of Hemisphere?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [75]

I can't call exactly when (inaudible), to be honest ?

Unidentified Analyst [76]

What is your estimate sir, approximately?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [77]

Yes, NCI, I don't know, but I'm thinking by September, October, we should be able to conclude by the end of (inaudible) is my prediction.

Unidentified Analyst [78]

And I also want to know, is there any impact because of [RCOM], [PTML] and [PTSL] are no longer [Telecoms]. Did we get any re venues (inaudible) in quarter last year? Why we (inaudible) decline in revenue with the [funding] quarter last year? Can you comment on that, please?

Pratibha K. Advani, Tata Communications Limited - CFO [79]

That's right. Year-on-year, there has been close to a INR 40 crores, INR 45 crores impact in revenue.

Unidentified Analyst [80]

Okay. So is there a way we are going to make that up in some other way, or this is going to be the case for the rest of the y ear?

Pratibha K. Advani, Tata Communications Limited - CFO [81]

I mean, we're going to see growth in our portfolio, so that's going to cover up some of the gap. But specifically, any plans to bridge this gap, that's not possible since those businesses have shut down. So I don't think we can ?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [82]

Yes. We are forecasting growth, and that will come from other accounts, not from these accounts.

Operator [83]

(Operator Instructions) The next question's from the line of (inaudible) from Quest Investments.

Unidentified Analyst [84]

I would like to -- I mean, on Traditional business, what growth estimate that we are putting for the current year, but ?

Pratibha K. Advani, Tata Communications Limited - CFO [85]

We typically don't -- but we don't specifically give guidance.

Unidentified Analyst [86]

Yes, but normally we used to -- and we said that it should grow around in 6% to 7%. So any change in that number, or still realistic to that number?

Pratibha K. Advani, Tata Communications Limited - CFO [87]

No. I mean, given the challenge that we are seeing in the India landscape, that number will come marginally down. We anticipa te the growth will more be in the range of 4% to 5%.

Unidentified Analyst [88]

(inaudible) say that impact of this digital transformation we are seeing in our Traditional business. So where we like to put -- I mean, EBITDA, I mean (inaudible)?

Pratibha K. Advani, Tata Communications Limited - CFO [89]

We would be comfortable with EBITDA margins in the range of 29% to 30%.

Unidentified Analyst [90]

Vinod, seeing on this Enterprise business, we (inaudible) really as successful in India. So what are the now initiatives that we have taken? And what kind of [visual] that we are seeing in the international market? And which are the international market that we are targeting for these Enterprise businesses?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [91]

So we are (inaudible) focus on the U.S., U.K., France, and Germany, Singapore, Hong Kong as the principal markets for our Ent erprise services. But we are getting some traction to services like MOVE in markets, including Taiwan and Korea. So we have some customers outside that, but those would be the principal areas of focus and where we're applying more resources.
Another way to look at it is we now have a fairly good idea of where we get the most returns for our sales investment, and th at is in customers that are between $15 million and $35 million in revenue. And we are therefore adopting what we call a "data-mature" strategy, which is to focus on a smaller set of customers but be intensely committed to the service level we provide them. And so that increase the product penetration ratio, or cross-sell more services into the same account. And for our other customers, continue to maintain the relationship but manage it mo re toward the [Business] Service process, which is a big shift in our sales go-to-market model, which we've been implementing since the beginning of this year. And it will unfold and conclude in the next 3 t o 4 quarters.

Unidentified Analyst [92]

And second, on these Innovation Services, the direct cost sales gone up substantially because we are building up the business . So can you give some kind of -- I mean, what could be the direct costs (inaudible), I mean, going ahead for this current year, next 3 quarter?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [93]

We'll be maintaining and slightly increasing the spend we make on our Innovation Services, just like we did in the past with our Growth Services. They are still at the stage where they need investment, and we'll continue to do that, again because we have very good market validation that we're getting, as you can see from the oper ating metrics that we share.

Unidentified Analyst [94]

And (inaudible) -- I mean, TCTSL growth and EBITDA (inaudible) for the full year?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [95]

I just say that TCTSL has a strong order book which is under implementation. And it is an international order book. And there fore, we expect to see the (inaudible) growth, very respectable revenue growth, if I can call it that, and also margin expansion as (inaudible).

Unidentified Analyst [96]

And how confident that we are taking this TCTSL growth for longer term in the coming years?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [97]

TCTS? Was your question on -- yes. Look, we believe that the growth in TCTS can be quite strong based on the run rate that we -- what we have provide now and the run rate which we'll exit this year. We believe that we can have strong growth. TCTS has strong growth prospects.

Unidentified Analyst [98]

Is basically (inaudible) help us when improving the networking of the Telco? Is that correct, efficiency of the Telco network ?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [99]

Yes. It is -- I wouldn't just say efficiency. We basically offer a range of managed services and operational improvement and engineering se rvices for Telcos and other communication service providers, both traditional as well as some of the newer [CSPs]

Unidentified Analyst [100]

And how do we see the opportunity with rollout of 5G and [TCTSL]?

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [101]

As and when the 5G rollout begins to pick up speed, as the opportunities for TCTS, because there'll be two things that are re quired. One is more engineering services, which are complex in the case of 5G, as well as migration of customers from one [cell] platform to another, or one technology platform to another.

Operator [102]

Thank you. Ladies and gentlemen, that was the last question. I now hand the conference over to the management for closing com ments.

Vinod Anand Kumar, Tata Communications Limited - Group CEO, MD & Executive Director [103]

Thank you very much for your participation, and also the questions. I know that, from a quarterly perspective, the expectatio ns can be a bit more than what we've delivered. But I can tell you, based on the underlying business and the focus of the entire Tata Communications team, and the (inaudible) of our strategy, both by extern al experts and [8] customer validation, we feel confident that we are allocating our capital and our [offers] to the right areas. And hence, we are maintaining some of the progressions that we've made for t he trend in terms of growth services, with EBITDA loss declining and then turning positive in the near term, in terms of the overall growth services momentum that we expect to demonstrate for this year over last year, and finally, in terms of return on capital employed from a medium - to longer-term perspective. So we seek your understanding of the granular -- at the granular level of our strategy, and your support and your comments and advice is always sought for and most welcome. Thank you, and I look forward to speaking with you in a few months with the next quarter's results.

Operator [104]

Thank you. On behalf of Tata Communications, that concludes this conference. Thank you for joining us, and you may now discon nect your lines.